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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

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GENERAL GOVERNMENT DIVISION

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MAY 31 1974

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The Honorable Charles W. Sandman, Jr.
House of Representatives

Dear Mr. Sandman:

Your October 16, 1973, letter requested that we examine the awarding of grants by the Coordinating Council of Literary Magazines (CCLM), which receives about 50 percent of its funds from the National Endowment for the Arts. Your request was based on a letter from a constituent, who alleged that CCLM

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- grant award committee members are all poets who make grants only to poetry magazines, although CCLM claims to represent all types of literary magazines;
- procedures were not adequate for insuring that its grantees properly match CCLM grants; and
- grantees were probably overstating expenses, especially publishing costs, on their grant applications and then pocketing these funds as salary.

We discussed these matters with Endowment and CCLM officials and reviewed pertinent records. Grantees were not contacted.

BACKGROUND

CCLM was established in 1967 to aid small literary magazines by providing them grants for general operating purposes and to pay individual writers. Additionally, CCLM sponsors special projects, such as semiannual regional meetings of literary magazine editors, writers, and students and an annual college literary magazine contest.

About 350 of approximately 1,200 small noncommercial literary magazines in the country are CCLM members. Membership is open to any literary magazine. To be eligible for a grant, a magazine must have existed for at least 1 year and have published at least three issues.

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CCLM consists of a Board of Directors, an Executive Committee, and an Executive Director and four staff members who are responsible for day-to-day operations. Grant panels assist the Board by evaluating grant applications and recommending those which warrant assistance.

The Endowment awarded CCLM eight grants totaling \$1,123,000 between fiscal years 1967 and 1974. According to Endowment officials, the 1974 grant of \$300,000 is the anticipated level of funding for future grants. To date CCLM has awarded 590 grants to 362 magazines. During fiscal year 1973, grants ranged from \$50 to \$6,000 and averaged about \$1,300.

Endowment officials believe continued funding of CCLM is very important because its sole purpose is to assist small noncommercial literary magazines. According to the Endowment, such magazines have historically been a main publishing source for many American writers. CCLM has noted that (1) these magazines have average life spans of 3 to 5 years, (2) more than half print fewer than 1,500 copies per issue, and (3) the publishing costs of most far exceed the revenue from their sale.

MAGAZINES SELECTED FOR GRANT AWARDS

CCLM grant panels are responsible for reviewing grant applications and recommending which should receive grants and the amount of each grant. These panels are usually formed two or three times yearly and meet for several days. The five panel members serve together only once. While they are on a panel, applications from their magazines are not considered. Three panel members are elected by CCLM members who are usually editors or writers. The fourth panel member is a member of CCLM's Board, and the fifth is appointed by the Board from the literary community at large. According to CCLM officials, providing panel balance is considered in selecting the final member. For example, if the three elected members were poets, the Board might appoint a novelist.

Of 15 panel members on 3 separate panels formed in 1973, 11 considered themselves poets. For the 2 panels formed in 1974, 5 of 10 members considered themselves poets. Though we did not evaluate whether there was any bias in these panels' decisions, the Endowment's literature program director stated that CCLM awards grants to magazines that represent all literary styles. He added that it is very difficult to classify a magazine as poetry or prose because the type of material in many magazines changes with each issue. According to the director, most of the space in these magazines, however, is devoted to poetry rather than to other literary works because (1) unpaid authors tend to contribute poetry rather than short stories, (2) publishing poetry enables these magazines to include the works of more writers, and (3)

There now appears to be more interest in writing poetry than in other literary styles.

There was no objective basis for us to classify the magazines as poetry or prose. Therefore, we did not specifically confirm or deny the allegation that most awards go to poetry magazines.

CCLM officials stated that magazines receive grants on the basis of need and quality; special consideration is given to first-time applicants. For example, 40 percent of the grants awarded by the November 1973 panel were to magazines that had not previously received CCLM grants.

These officials also stated that the panels try to award as many grants as possible but usually do not provide grants to all applicants, primarily because of a shortage of funds. For example, during the November 1973 panel meeting, 68 percent of the applicants received grants. Of those eliminated, most were excluded because they were not considered to be of good literary quality.

GRANT MATCHING REQUIREMENTS

The Endowment requires CCLM to match its grant with an equal amount from non-Federal sources. CCLM meets this requirement by receiving funds from the New York State Council on the Arts and by requiring most grantees to match the grants they receive from CCLM, generally on a cash basis. However, certain in-kind contributions have been allowed occasionally.

CCLM requires grantees to submit proof of matching before it will dispense funds. This proof might include a donor's letter to the grantee stating the amount of cash or in-kind services provided or a copy of the donor's check. The donor may also send the funds directly to CCLM, which forwards them and its matching share to the grantee.

According to CCLM officials, theoretically a grantee could circumvent this requirement by returning the matching funds to the donor. They stated, however, that there was no indication that this had been done. Nevertheless, CCLM has not audited grantees to determine if matching requirements are properly adhered to.

However, given the small dollar amount of each CCLM grant and CCLM's limited staff, it does not appear practicable for CCLM to audit the matching requirements for all its grantees. CCLM's procedures requiring proof of matching before dispensing funds appear to provide reasonable assurance that the grants are matched as required. A periodic audit of a random sample of CCLM grantees, however, could verify the reasonableness of CCLM's procedures and indicate whether more action is needed by CCLM to insure proper matching.

According to the Endowment's literature program director

--many magazines have objected to matching grants on a cash basis, as CCLM requires, because they have had to spend time raising funds instead of devoting time to editing and publishing their magazines and

--the smaller and less established magazines which have the greatest financial needs are the least capable of raising funds.

Therefore, he has encouraged CCLM to change its policy to regularly allow in-kind contributions, including an editor's time. As a result of discussions between CCLM and the Endowment, CCLM's Board has approved the new policy.

Since editors are usually not paid, CCLM intends to establish a standard hourly rate for editors' donated time which would apply to all grantees.

CONTROLS OVER GRANTEE EXPENDITURES

CCLM procedures for controlling grantee expenditures include an evaluation of the proposed expenditures in the grant applications and a requirement that grantees provide supporting documentation for all expenditures. Grantees are given funds for general support, to pay authors and for special needs. Grantees are allowed to spend the funds within these categories as deemed appropriate, as long as they are in accordance with CCLM's general grant provisions.

CCLM analyzed grantees' stated needs for 1969 - 71. Printing costs represented 82.5 percent of the funds requested. The remaining funds were for payments to authors, mailing costs, and salaries.

Before CCLM awards funds, the grant panels review magazines' prior-year expenses along with copies of the magazines. Because most panel members have publishing experience, CCLM officials believe fictitious cost requests would be recognized.

CCLM requires grantees to submit signed final expenditure reports and supporting documentation, which usually consists of copies of paid bills and canceled checks. CCLM checks the documentation against the reports. Additionally, to insure that grantees submit this information, CCLM will not award another grant to a magazine until this information has been received. We found this information in the file.

Furthermore, CCLM officials believe that continued publishing of grantee magazines indicates that funds were spent as intended.

CCLM does not have sufficient staff to do site audits of its grantees because it does not believe it is administratively feasible to audit small grants and because grantees are located all over the country. CCLM officials believe, however, that their procedures, along with their intimate knowledge of the literary community, give reasonable assurance that funds are used for the purposes intended.

If properly carried out, CCLM's procedures provide reasonable assurance that grantees use funds for intended purposes. Establishing more elaborate procedures and controls does not appear warranted or cost effective, considering the purpose and small dollar value of CCLM grants.

ACTION TAKEN AS A RESULT OF PRIOR GAO AUDIT

We previously audited CCLM as part of an overall audit of the Endowment. The report¹ (copy enclosed) concluded that CCLM did not have adequate procedures to properly account for Federal funds. We therefore recommended that responsible Endowment officials determine, through discussions and visits with grantees, that proper accountability was being made over grant funds. The Endowment completed an audit of CCLM in February 1972 and concluded that CCLM had not fulfilled its financial and administrative responsibilities under the terms of the grants. According to Endowment officials, however, CCLM has subsequently improved its control procedures. The Endowment audited CCLM again in the spring of 1974 to determine if these changes had been effectively implemented.

The audit report was not complete when we finished our work. However, the auditors did say they extensively reviewed expenditure reports and matching requirement documents for grantees to insure that grantee reporting requirements were being adhered to. Moreover, they agreed that in future audits of CCLM, they would consider auditing selected grantees to verify that the matching requirements were being met.

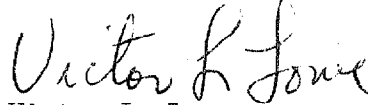
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¹"Adequate Accountability Needed for Grants Awarded by the National Endowment for the Arts" (B-158811, Oct. 14, 1971).

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We discussed the contents of this report with Endowment officials and considered their comments. As agreed with your office, we are providing copies of the report to the Endowment.

Sincerely yours,

A handwritten signature in cursive script that reads "Victor L. Lowe".

Victor L. Lowe
Director

Enclosure